



OFFICE OF MANAGEMENT AND BUDGET

Douglas M. Duncan
County Executive

Beverley K. Swaim-Staley
Director

MEMORANDUM

March 28, 2006

TO: Interested Readers

FROM: Beverley K. Swaim-Staley, Director
Office of Management and Budget *BKS*

SUBJECT: FY07-12 Fiscal Plan

Executive Summary:

In developing the FY07 Operating Budget, the County Executive recommended a 9.5-cent reduction in property tax rates to meet the Charter Limit on property tax revenue, emphasized the priorities of Education, Public Safety, Health and Human Services, and Transportation, and increased the County's tax supported reserves to 6.6 percent of total resources (higher than the six percent policy level). Several significant challenges lie ahead, however, including rising retirement and medical costs, recognition of retiree health expenses, and funding program improvements. In addition to these challenges, actions implemented at the Federal and State level may complicate the County's ability to plan for the FY07-12 period.

Background:

The recommended FY07-12 Fiscal Plans for the tax supported and non-tax supported funds of the agencies of County government are provided for your information. Portions of this material were initially published in the Recommended FY07-12 Recommended Operating Budget and Public Services Program (March 15, 2006).¹ As in past years, this information is intended, in part, to assist the Council's Management and Fiscal Policy Committee to develop its recommendations on possible adjustments to the Spending Affordability Guidelines for the FY07

¹ In addition to these two documents, the reader is encouraged to review other County fiscal materials such as the Comprehensive Annual Financial Report for the year ended June 30, 2005; the Annual Information Statement published by the Department of Finance on January 17, 2006; and Economic Indicators data. Budget and financial information for Montgomery County can also be accessed on the web at www.montgomerycountymd.gov.



Office of the Director

Operating Budget. Mr. Duncan's fiscal policies remain unchanged: grow the local economy and tax base; obtain a fair share of State aid; maintain strong reserves; minimize the tax burden on citizens; and manage indebtedness and debt service very carefully. Again this year, these policies were recognized by the continuation by all major rating agencies of our coveted AAA credit rating, the highest possible.

Fiscal Plan for the Tax Supported Funds:

The recommended fiscal planning objectives for FY07-12 for the tax supported funds are:

- Adhere to fiscally sound policies.
- Assume a 9.5-cent property tax reduction.
- Maintain strong reserves including:
 - Maintain total tax supported reserves (operating margin and the Revenue Stabilization Fund) at 6.6 percent of total resources, including \$15.3 million in designated reserves for Montgomery County Public Schools Capital Improvements Program and \$5.5 million in undesignated reserves for contingencies;
 - Consider the Revenue Stabilization Fund for discretionary additions (along with any mandatory increases from revenue growth beyond estimates);
 - Manage fund balances in the employee health insurance fund, property/casualty risk management fund, and other non-tax supported funds to established policy levels where applicable.
- Assume current State-aid formulas but continue successful strategies to increase State (and Federal) operating and capital funding.
- Maintain priority to economic development and tax base growth:
 - Seize opportunities to recruit and retain significant employers compatible with the County's priorities;
 - Give priority to capital investment that supports economic development/tax base growth.
- Manage all debt service commitments very carefully, consistent with standards used by the County to maintain high credit ratings and future budget flexibility. Recognize the fixed commitment inherent in all forms of multi-year financing (long-term bonds, shorter-term borrowing, and lease-backed revenue bonds) that must be accommodated within limited debt capacity.
- Maintain essential services.
- Limit the County's exposure in future years to rising costs by controlling baseline costs and allocating one-time revenues to one-time expenditures, whenever possible.
- For capital investment (CIP), allocate debt, current revenue, and other resources made available by the fiscal objectives above according to priorities established by policy and program agendas.
- For services, allocate resources consistent with policy and program agendas.

The major challenges for FY07-12 will be to contain ongoing costs, preserve essential services, make improvements in other services including education, transportation, health and human services, public safety, and homeland security. Cost containment challenges include rising compensation and benefit costs and medical costs which impact both the County's employee and retiree health insurance contributions and workers' compensation costs.

Subsequent to the release of the County Executive's Recommended Budget, County Council approved several supplemental appropriations which are reflected in the enclosed fiscal documents. Further, a procedural reconciliation process between County Council staff and the Office of Management and Budget resulted in a few technical adjustments which are also reflected in the enclosed fiscal documents. The results of the above mentioned changes to the fiscal documents has increased the FY07 reserves to 6.7 percent and increased the undesignated reserves to \$9.7 million above the 6.0 percent policy level.

Fiscal Plans for the Non-Tax Supported Funds:

By definition, each of the non-tax supported (fee supported) funds is independent, covering all operating and capital investment expenses from its dedicated revenue sources. The fiscal health of each fund is satisfactory, though looking ahead some funds will need to meet expected challenges by rate adjustments and/or expenditure management decisions.

Conclusion:

Montgomery County's fiscal health is strong as a result of its underlying economy and the financial management policies endorsed by its elected officials. Nonetheless, we continue to face significant challenges in the years ahead. The FY07-12 Fiscal Plans reflect these challenges in their assumptions and projections.

Comments on the Fiscal Plans that follow are encouraged as opportunities for improvement. OMB and Finance staff of the County government, and Finance staff of the other agencies, are available to assist in the Council's deliberations.

Attachment: FY07-12 Fiscal Plan for Montgomery County, Maryland

cc: Douglas M. Duncan, County Executive
Members, Montgomery County Council
Bruce Romer, Chief Administrative Officer
Dr. Jerry D. Weast, Superintendent, MCPS
Dr. Charlene R. Nunley, President, Montgomery College
Derick P. Berlage, Chair, Montgomery County Planning Board
Andrew D. Brunhart, General Manager, WSSC
Scott Minton, Executive Director, HOC
Marc Atz, Executive Director, Revenue Authority
Timothy L. Firestine, Director, Department of Finance
Stephen Farber, Council Staff Director